

Message Text

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APPROVED BY:EB:PBOEKER

FEDERAL RESERVE:HWALLACH

S - MR EAGLEBURGER

S/S-O:RELTZ

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FM SECSTATE WASHDC

TO AMEMBASSY BONN NIACT IMMEDIATE

C O N F I D E N T I A L STATE 029603

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: ROLE OF BIS IN SOLIDARITY FUND

FOR HERMBERG

1. DELIVER TO APPEL AS EARLY AS POSSIBLE SUNDAY FEB. 9
FOLLOWING LETTER FROM SECRETARY SIMON.

2. BEGIN TEXT: MY DEAR HANS: I HAVE YOUR LETTER CONVEYED
TO ME BY AMBASSADOR VON STADEN. I UNDERSTAND THE PROBLEMS
YOU HAVE RAISED WHICH PREVENT THE GERMAN GOVERNMENT FROM
MAKING DIRECT CONTRIBUTIONS TO THE NEW FUND, AND I APPRE-
CIATE THE CREATIVE EFFORTS THAT HAVE BEEN MADE TO FIND A
WAY FOR GERMANY TO PARTICIPATE IN THIS ENDEAVOR WHICH IS SO
IMPORTANT TO ALL OF US. I SHARE YOUR VIEW THAT THE BANK
FOR INTERNATIONAL SETTLEMENTS COULD PLAY A CONSTRUCTIVE ROLE
IN LENDING TO THE NEW FUND UNDER A GUARANTEE FROM THE
FEDERAL REPUBLIC THUS ALLOWING GERMANY TO, IN EFFECT, MAKE
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A DIRECT CONTRIBUTION TO THE NEW FUND. I HAVE ASKED

FEDERAL RESERVE GOVERNOR HENRY WALLACH, WHO WILL ATTEND THE BIS MEETING THIS WEEKEND, TO EXPRESS THIS VIEW TO HIS COLLEAGUES IN BASLE.

I HOPE YOU WOULD FIND IT EQUALLY APPROPRIATE FOR THE GERMAN GOVERNMENT TO PROVIDE ITS GUARANTEE TO THE NEW FUND ITSELF, THUS ALLOWING IT TO BORROW IN FINANCIAL MARKETS OF MEMBERS

ON THIS GUARANTEE. IT IS ESPECIALLY IMPORTANT TO HAVE AN ALTERNATIVE METHOD OF BORROWING TO ASSURE NEEDED FLEXIBILITY IN THE OPERATIONS OF THE FUND.

THESE ARRANGEMENTS WOULD ALLOW GERMANY TO MEET FULLY ITS OBLIGATIONS TO THE FUND, IN THE EVENT OF A DECISION TO MAKE A LOAN, BY PROVIDING ITS GUARANTEE TO BE USED BY THE BIS OR THE FUND TO OBTAIN THE FUNDS NEEDED. AS I SEE IT, TO MAKE THE FUND POLITICALLY CREDIBLE, SINGLE INTEREST RATE WOULD BE PAID TO ALL MEMBERS PROVIDING DIRECT FINANCING, EVEN THOUGH SOME SUCH MEMBERS MIGHT HAVE CHOSEN TO DISCHARGE THEIR OBLIGATIONS BY PROVIDING A GUARANTEE. IF THERE WERE ANY LOSS AS A RESULT OF A NON-PAYMENT OF A LOAN FINANCED IN PART FROM FUNDS PROVIDED BY SUCH A GUARANTEE, THE BIS OR THE FUND COULD LOOK ONLY TO THE INDIVIDUAL GUARANTOR OR GUARANTORS, AND NOT TO OTHER MEMBERS, FOR THE REQUIRED REPAYMENT RESOURCES.

THE OTHER METHOD OF OBTAINING RESOURCES FOR THE FUND WOULD BE FOR MEMBERS ACTING TOGETHER UPON A DECISION OF THE FUND TO BORROW FROM THE BIS OR FINANCIAL MARKETS OF MEMBERS. UNDER THIS TYPE OF BORROWING, I BELIEVE THAT EACH MEMBER SHOULD BE REQUIRED TO BE LIABLE FOR NO MORE THAN TWO TIMES ITS QUOTA SHARE OF THE RESOURCES BORROWED UNDER THE JOINT GUARANTEE. IT MAY BE THAT A FULL JOINT AND SEVERAL GUARANTEE WITH EACH MEMBER LIABLE ON ANY LOAN UP TO ITS UNCALLED QUOTA MAY BE REQUIRED IN ORDER FOR THE FUND TO BORROW AT REASONABLE RATES. HOWEVER, I BELIEVE THAT NO MEMBER SHOULD BE REQUIRED TO ACCEPT THIS EXTENSIVE LIABILITY. IF SUCH A GUARANTEE IS NECESSARY, IT COULD BE PROVIDED ONLY ON A VOLUNTARY BASIS.

WITH AGREEMENT ON THE ARRANGEMENTS YOU HAVE SUGGESTED FROM MEETING OBLIGATIONS UNDER DIRECT FINANCING AND THE LIMITATION OF LIABILITY
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ON JOINT BORROWING THAT I HAVE PROPOSED, I BELIEVE IT WILL BE POSSIBLE TO REACH PROMPT AGREEMENT ON THE TERMS OF THE NEW FUND.

WITH BEST WISHES,
SINCERELY, BILL SIMON. END TEXT. KISSINGER

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